

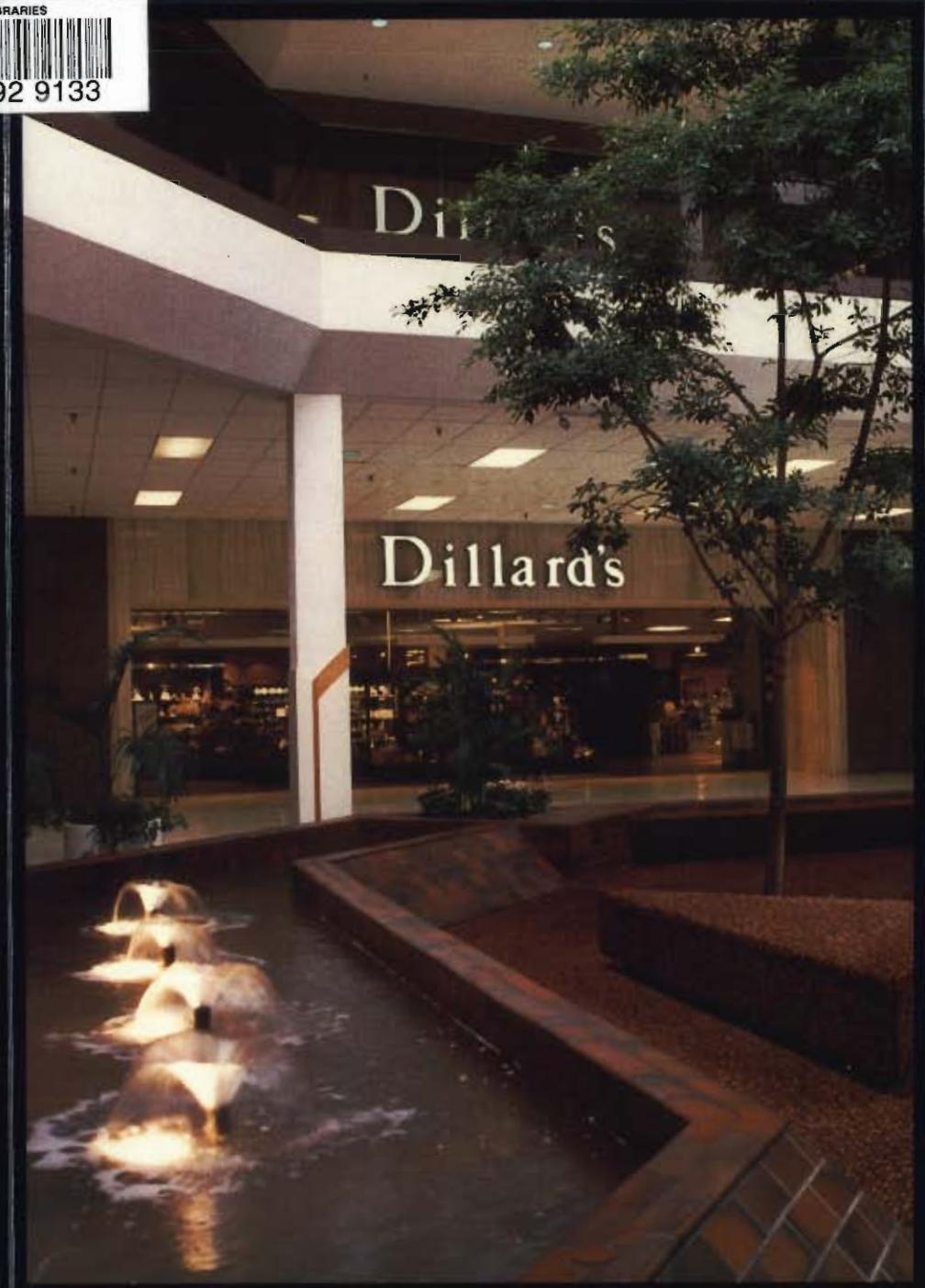
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DILLARD DEPARTMENT STORES, INC.

UT ARLINGTON LIBRARIES



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1984 • ANNUAL • REPORT

The Corporation

Dillard Department Stores, Inc., is a regional group of traditional department stores operating 93 stores at year end: 37 in Texas, 12 in Oklahoma, 10 in Missouri, 9 in Arizona, 7 in Arkansas, 4 in Louisiana, 4 in Tennessee, 3 in Kansas, 3 in Nevada, 3 in New Mexico and 1 in Illinois. The stores vary in size from 40,000 square feet to 240,000 square feet. The stores feature branded goods in the middle to upper-middle price ranges and cater to a broad spectrum of the population. Special emphasis is placed upon fashion-oriented apparel and home furnishings.

General Information

Annual Meeting:

Friday, May 17, 1985 at 9:30 A.M.

Board Room

Union National Bank

Capitol and Louisiana

Little Rock, Arkansas 72201

Form 10-K:

Copies of the Company's

10-K Annual Report may be

obtained by written request to:

J. K. Jameson, III, Vice President

Post Office Box 486

Little Rock, Arkansas 72203

Corporate Headquarters:

900 West Capitol Avenue

Little Rock, Arkansas 72201

Mailing Address:

Post Office Box 486

Little Rock, Arkansas 72203

Telephone: 501-376-5200

Telex 901-722-7322

Transfer Agent and Registrar:

Centerre Trust Company

St. Louis, Missouri

Listing:

American Stock Exchange

Ticker Symbol "DDSA"

About the Cover:

Front Cover: Oak Park Center

Kansas City, Kansas

Acquired January, 1984

Back Cover: Oakwood Mall

Enid, Oklahoma

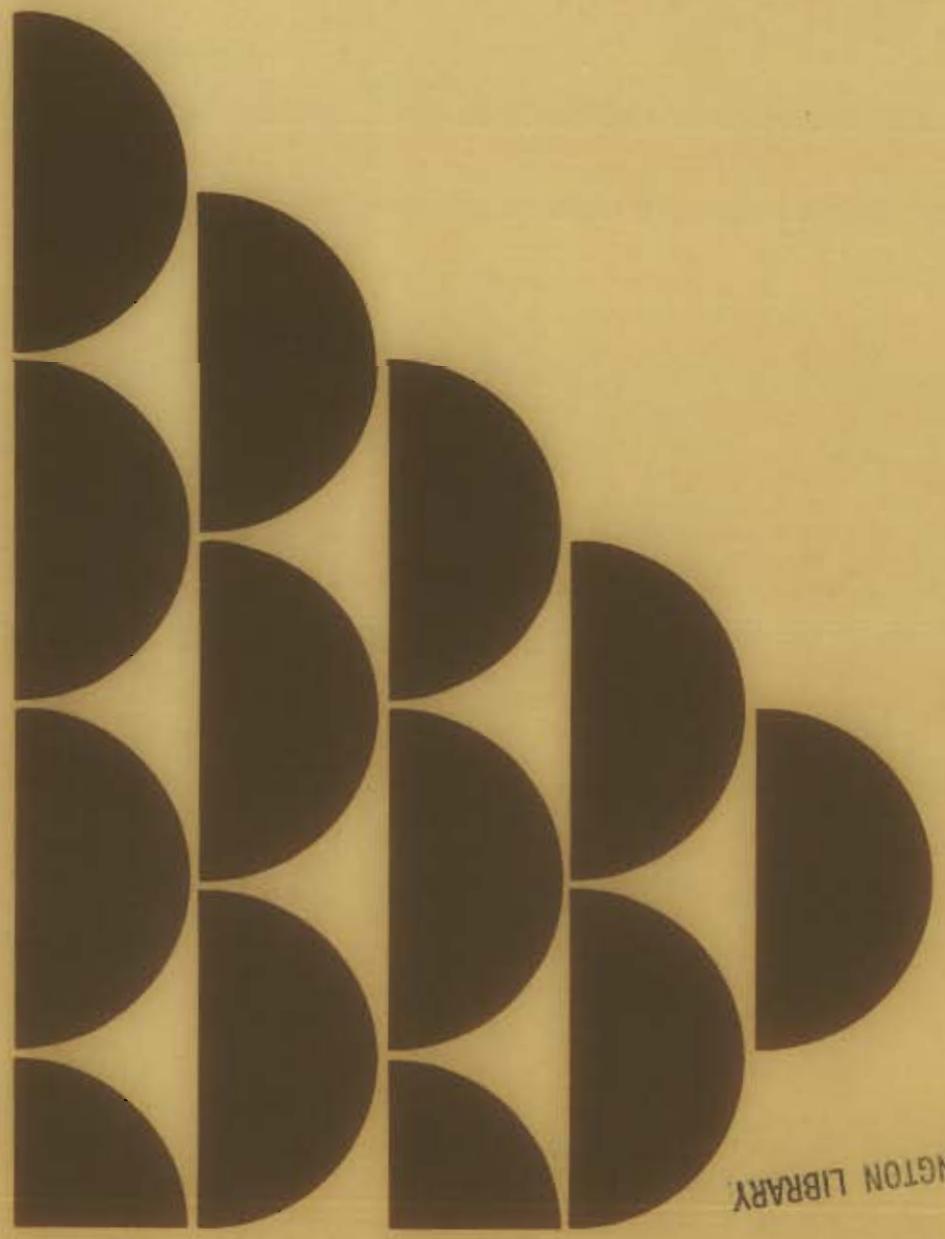
Opened February, 1984



(Above) Irving Mall
Irving (Dallas), Texas

(Below) Independence Plaza
Kansas City, Missouri



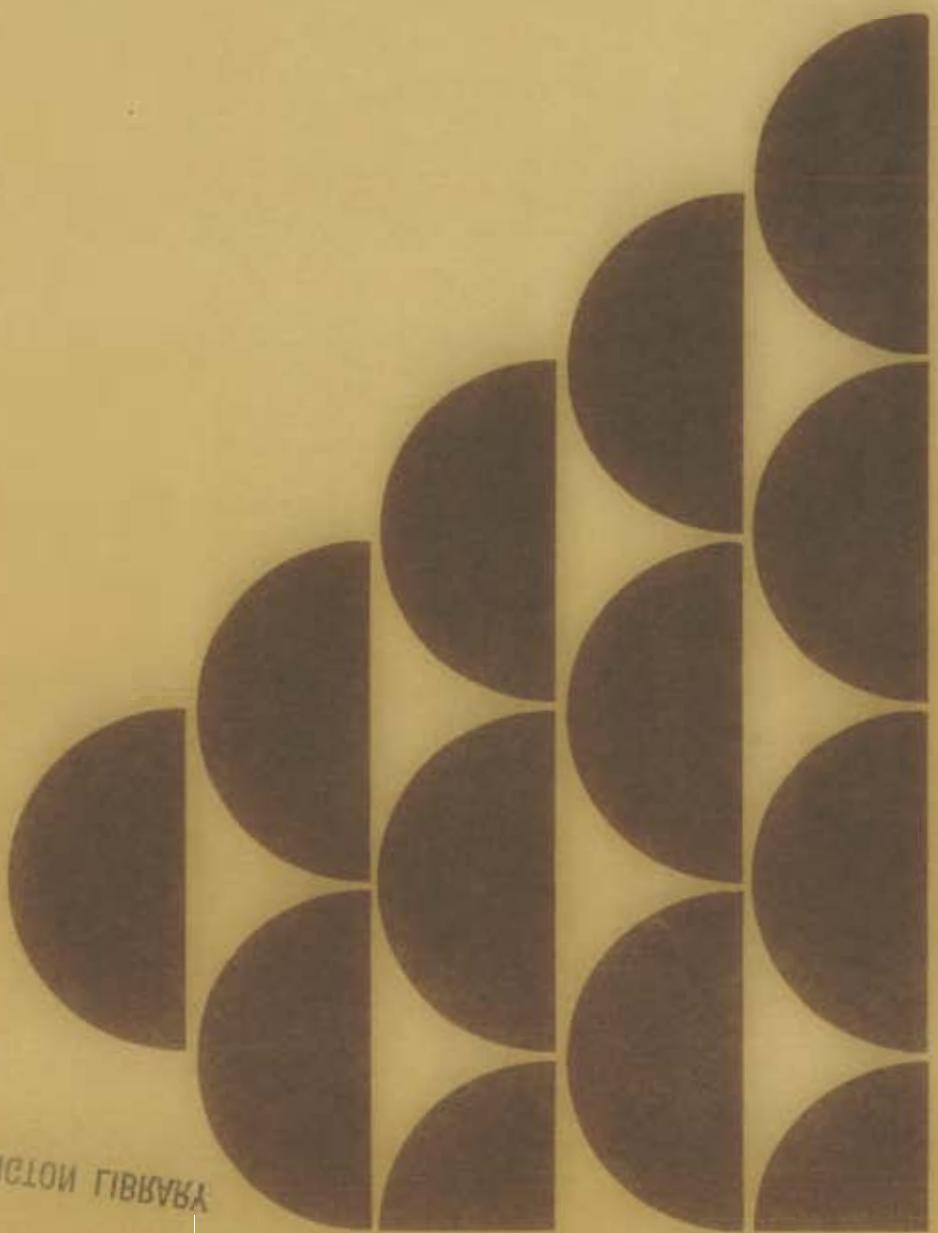


Dillard's

UNIVERSITY OF TEXAS AT ARLINGTON LIBRARY

Dillards

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Financial Highlights

(In thousands of dollars except per share amounts)



| | 1984 | 1983 |
|--|-------------------|------------|
| Net Sales | \$ 1,277,280 | \$ 847,485 |
| Income Before Income Taxes | 87,608 | 59,939 |
| Net Income | 49,558 | 34,139 |
| Per Common Share | 3.63 | 2.76 |
| Average Number of Common Shares Outstanding | 13,657,288 | 12,346,218 |
| Book Value Per Share | 20.49 | 14.72 |
| Dividend Per Common Share | .175 | .15 |
| Number of Stores in Operation at Year End | 93 | 66 |
| Number of Employees — Average | 12,965 | 8,940 |
| Number of Stockholders at Year End | 1,914 | 1,698 |

Stock Prices and Dividends By Quarter

| Quarter | <i>Sale Price — Common Shares</i> | | | | <i>Dividends Per Share</i> | |
|---------|-----------------------------------|------------|-------------|------------|--------------------------------|-------------|
| | 1984 | | 1983 | | 1984 | 1983 |
| | <i>High</i> | <i>Low</i> | <i>High</i> | <i>Low</i> | | |
| First | \$26.13 | \$21.63 | \$24.44 | \$11.88 | \$.0375 | \$.0375 |
| Second | 27.25 | 23.38 | 29.50 | 22.13 | .0375 | .0375 |
| Third | 41.88 | 26.06 | 31.38 | 24.07 | .05 | .0375 |
| Fourth | 47.75 | 36.25 | 29.75 | 25.88 | .05 | .0375 |



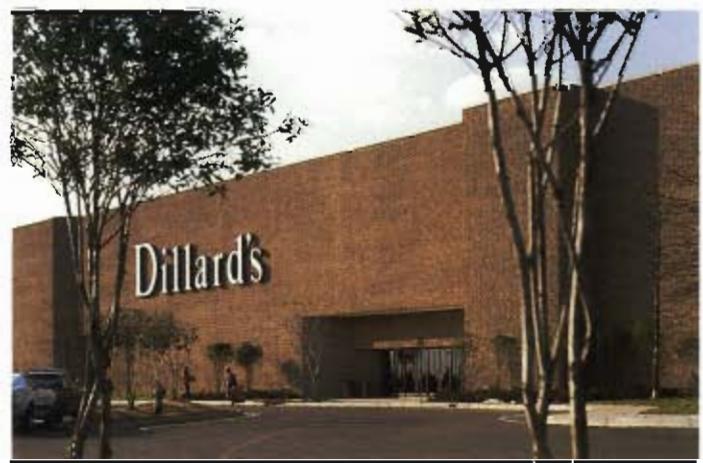
(Above) McCain Mall
North Little Rock, Arkansas





(Above) William Dillard
Chairman of the Board
Chief Executive Officer

(Bottom Right) Mall of Memphis
Memphis, Tennessee



Letter To Stockholders

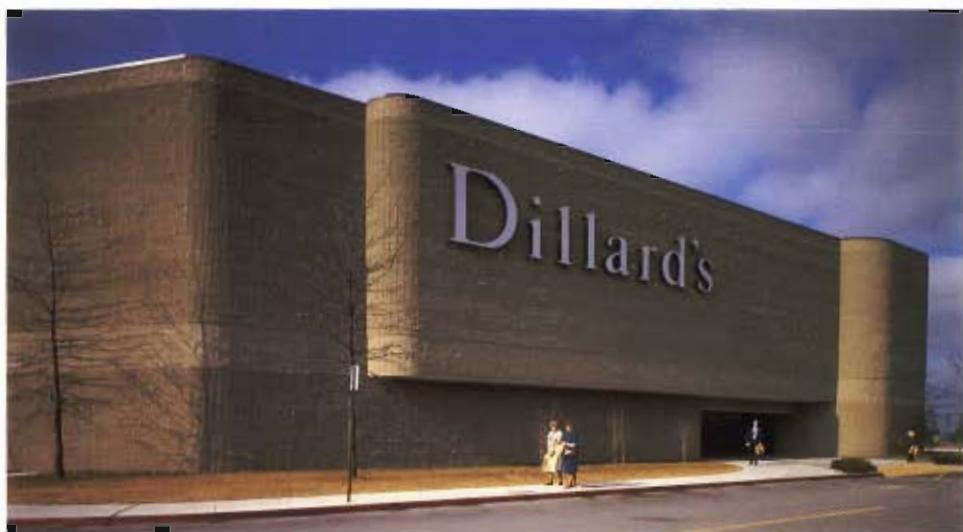
This has been a very eventful year for Dillard Department Stores, Inc. Again, new records were set with 1984: Sales of \$1,277,280,000 and income before income taxes of \$87,608,000. Net income after taxes amounted to \$49,558,000. Our earnings per share amounted to \$3.63 versus \$2.76 last year. In the past ten years Dillard's has grown from annual sales of \$173,424,000 and net income of \$2,849,000. The ten year compound growth rate for sales was 22.1% and for income was 33.1%. The five year compound growth for sales was 26.7% and for income was 42.9%.

Average shares outstanding this year were 13,657,288 as compared to 12,346,218 last year.

All share and per share references have been restated to reflect two-for-one stock splits which occurred on August 30, 1984 and March 14, 1983.

The sales gain this year was 50.7%, contributed to by the acquisitions that were made during the year. The store-for-store gain for the year was 14.8%, reflecting a good growth in existing stores after the 15.3% store-for-store gain last year.

On January 30, 1984 we purchased the twelve store Stix, Baer & Fuller division from Associated Dry Goods Corporation. These stores are located in the St. Louis and Kansas City markets.



On September 30, 1984 we purchased the five store John A. Brown division and the twelve store Diamond's division from Dayton Hudson Corporation. The Brown stores are located in Oklahoma City and Tulsa, Oklahoma. The Diamond's stores are located in Phoenix and Tucson, Arizona and Las Vegas, Nevada.

(Top) Battlefield Mall
Springfield, Missouri

(Above) Washington Park Mall
Bartlesville, Oklahoma

Letter To Stockholders *(continued)*

The purchase price for the acquisitions approximated \$93,000,000 for the Stix division and approximated \$143,000,000 for the Brown and Diamond's divisions.

The stockholders' equity was increased twice during the year to facilitate these acquisitions. On January 30, 1984 we issued 600,000 shares of our Class A Common Stock to Associated Dry Goods Corporation in part payment of the Stix division stores. On October 2, 1984 the Company sold 1,337,219 shares of Class A Common Stock in a public offering and concurrent private placement. These two sales of equity netted the Company \$15,750,000 and \$49,723,000 in new equity.

In addition to the increase in equity, long term debt has been placed totalling \$120,000,000. Under five separate placements, the terms range from five to ten years, and the rates of interest are fixed rates varying from 11-7/16% to 13-3/8% per annum and a floating rate at prime not to exceed 13%. The maturities during 1985 on these placements will be \$15,000,000.

Through our wholly owned finance subsidiary, Dillard Investment Co., Inc., we maintain bank lines under a revolving credit agreement

of \$200,000,000 and a commercial paper facility of \$25,000,000 to fund the purchase of customer accounts receivable from the Company. During the year these facilities were increased \$100,000,000 from \$125,000,000 to \$225,000,000. The year end borrowings on these facilities have been increased \$90,000,000 from \$125,000,000 at January 28, 1984 to \$215,000,000 at February 2, 1985.

MARY
O'DEEPER
CO. INC.
F. DILLARD & CO.



The net effect of the financing and the provision of necessary working capital for the 1984 acquisitions has been the increase in stockholders' equity by \$65,000,000, long term debt by \$120,000,000

and the utilization of proceeds from the sale of accounts receivable of \$90,000,000.

The original evaluation of the potential purchase of the Stix stores has been con-

firmed by its operation during our first year. The public acceptance of Dillard ownership at the stores has been gratifying. At the time of the initial takeover, all data collecting and management reporting systems were converted to those used by the entire Company. The financial, accounting and credit operations were totally discontinued at Stix and were assumed by our existing operation. These and other changes resulted in sizeable expense reductions. These reductions were reinvested in additional inventory, advertising and sales personnel in the stores. The result has been sales increases exceeding our plans, with the stores making a positive contribution during the first year.



(Above) Oak Park Center
Kansas City, Kansas

Letter To Stockholders

(continued)



(Above) Tucson Mall
Tucson, Arizona

(Bottom Right) Westridge Mall
Phoenix, Arizona



Immediately after their acquisition, the John A. Brown stores were merged into our Fort Worth division. The performance of our stores in the Tulsa and Oklahoma City markets has been improved by the Brown acquisition.

The Diamond stores were operated under their existing systems until January 20th, at which time they were converted to our systems. The sales volume and profit contribution from these stores were above our initial expectations.

During 1983 and 1984 the development of new shopping centers was greatly reduced by the economic events of the earlier 80's. For these two years we opened only four new stores. Beginning in 1985, the tempo of new center openings will return to a more normal level and we will be opening an increased number of stores in 1985, 1986 and beyond.

A new 130,000 square foot store was opened in Irving Mall, Irving, Texas, on March 14, 1984. Irving is part of the Dallas market. In the Dallas-Fort Worth metroplex we now have ten stores.

On February 29 and August 1, we opened new 70,000 square foot stores in Enid, Oklahoma and Bartlesville, Oklahoma.

New stores to open in 1985 are in Hutchinson, Kansas; Jefferson City, Missouri; Fort Smith, Arkansas; Monroe,



Louisiana; Columbia, Missouri; Santa Fe, New Mexico; and St. Louis Centre, a new re-development in downtown St. Louis, Missouri.

For 1986 new stores will be opened in Sherman, Texas; Alexandria, Louisiana; Pine Bluff, Arkansas; Beaumont, Texas and Tulsa, Oklahoma.

(Top) Chesterfield Mall
St. Louis, Missouri

(Above) Metro Center
Phoenix, Arizona

Letter To Stockholders *(continued)*

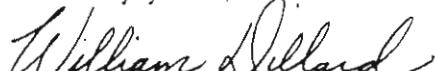
Expansion and major remodeling will occur during 1985 in Valley View Center, Dallas, Texas; Southland Center, Tulsa, Oklahoma; Westroads Mall, St. Louis, Missouri; Independence Plaza, Independence, Missouri; and Oak Park Center, Kansas City, Kansas.

Dillard's is now operating in eleven states. We are in most of the major markets in our operating territory. The boundaries of this territory extend from St. Louis and Kansas City on the north; to Brownsville, Texas on the south; to Memphis, Tennessee on the east; and to Las Vegas, Nevada on the west. Our presence throughout this trade territory has made Dillard's clearly the dominant department store operation of the Southwest. Our expansion and remodeling of existing stores and our new store program will contribute to this dominant position.

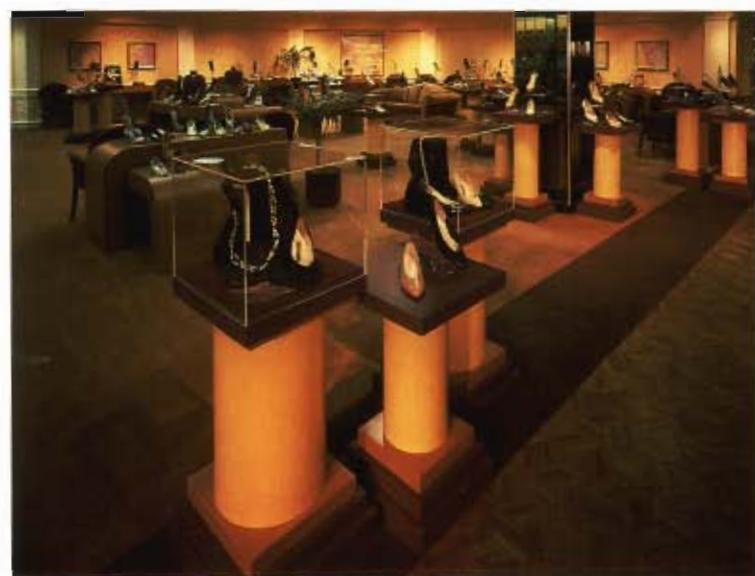
For the new year we will attempt to improve productivity of our existing stores. Our store-for-store gain of 14.8% in 1984 and 15.3% in 1983 indicates there is ample opportunity for future growth in existing stores.

We are confident that our growth in sales and net income will continue at an acceptable level.

Sincerely yours,



William Dillard



*(Top) St. Clair Square
Fairview Heights (St. Louis), Illinois*

*(Above) Irving Mall
Irving (Dallas), Texas*

Corporate Organization

Management

William Dillard
Chairman of the Board
Chief Executive Officer

E. Ray Kemp
Vice Chairman
Chief Administrative Officer

William Dillard, II
President
Chief Operating Officer

Alex Dillard
Executive Vice President

Mike Dillard
Executive Vice President

J. K. Jameson, III
Vice President
Secretary-Treasurer

W. R. Appleby
Jan E. Bolton
Donald C. Bradley
Joe Brennan
G. Kent Burnett
A. B. Cannon
Wynelle Chapman
Drue Corbusier
William Cummins
David M. Doub
Charles E. Franzke
T. R. Gastman
J. M. Gus Hannahs
Charles A. Hobbs
Louis V. McGaugh
Richard Maney
Kathy Mayes
Harry D. Passow
C. F. Plunkett
M. E. Ritchie, Jr.
Dick Roberds
David Sanguinetti
J. W. Sherburne
Burt Squires
Joseph W. Story
J. B. Wilson
Vice Presidents

Operating Divisions

FORT WORTH
J. W. Sherburne
Chairman

W. R. Appleby
President

Drue Corbusier
Vice President-Merchandising

J. M. Gus Hannahs
Vice President-Merchandising

William Cummins
Vice President-Merchandising

Ken Moore
Vice President-Operations

Roy J. Grimes
Vice President-Stores

N. M. Tiernan
Vice President-Stores

John A. Franzke
Vice President-Sales Promotion

LITTLE ROCK
T. R. Gastman
Chairman

Mike Dillard
President

David M. Doub
Vice President-Merchandising

Burt Squires
Vice President-Merchandising

Nelson Hensley
Vice President-Operations

Ken Eaton
Vice President-Stores

Frank Arnone
Vice President-Sales Promotion

PHOENIX
G. Kent Burnett
President

Bernie Goldstein
Vice President-Stores

Joe Brennan
Vice President-Merchandising

David Sanguinetti
Vice President-Merchandising

Patrick Rush
Vice President-Operations

Bonnie Burton
Vice President-Sales Promotion

ST. LOUIS

Harry D. Passow
President

Richard Maney
Vice President-Merchandising

Kathy Mayes
Vice President-Merchandising

Michael Bowen
Vice President-Operations

Richard Eagan
Vice President-Stores

Paul Cavalli
Vice President-Sales Promotion

SAN ANTONIO
Charles E. Franzke
Chairman

J. B. Wilson
President

Wynelle Chapman
Vice President-Merchandising

Dick Roberds
Vice President-Merchandising

Gat Lemoine
Vice President-Operations

Mitchell Parrish
Vice President-Stores

Fred Johnson
Vice President-Sales Promotion

Board of Directors

William Dillard
Chairman of the Board

Clarence Barksdale
Chairman of the Board and
Chief Executive Officer
Centerre Bank N.A.
St. Louis, Missouri

James D. Berry
Chairman of the Board
RepublicBank Corporation
Dallas, Texas

Orson C. Clay
President
Chief Executive Officer
American National Insurance Co.
Galveston, Texas

Will D. Davis
Partner, Heath, Davis & McCalla
Attorneys
Austin, Texas

Alex Dillard
Executive Vice President

Mike Dillard
Executive Vice President

William Dillard, II
President

Dr. A. C. R. Dreesmann
Chairman of the Board
Chief Executive Officer
Vandex International B.V.
Amsterdam, The Netherlands

E. Ray Kemp
Vice Chairman of the Board

Anne M. McCarthy
Retired Vice President-Investments
New England Life Insurance Co.

G. Larry Kelley
Chairman of the Board and
Chief Executive Officer
Pickens-Bond Construction Co
Little Rock, Arkansas

John K. Riedy
Chairman of the Board
INTERCO., Inc.
St. Louis, Missouri

B. Finley Vinson
Senior Chairman and
Chairman of the
Executive Committee
First Commercial Corporation
Little Rock, Arkansas

John C. Whitehead
Chairman of the
International Advisory Board
Goldman, Sachs & Co.
New York, New York

Stores in Operation — 1984

ARIZONA

Phoenix Area

- **Fashion Square** (Sept., 1984)
72,000 Sq. Ft.
With Goldwaters
- **Fiesta Mall** (Sept., 1984)
125,000 Sq. Ft.
With Sears, Broadway and Goldwaters
- **Metro Center** (Sept., 1984)
182,000 Sq. Ft.
With Sears, Broadway, Goldwaters and Joske's
- **Paradise Valley** (Sept., 1984)
125,000 Sq. Ft.
With Penney's and Goldwaters
- **Park Central** (Sept., 1984)
166,000 Sq. Ft.
With Penney's and Goldwaters
- **Thomas Mall** (Sept., 1984)
190,000 Sq. Ft.
With Ward's
- **Westridge Mall** (Sept., 1984)
124,000 Sq. Ft.
With Penney's and Sears

Tucson

- **Park Mall** (Sept., 1984)
98,000 Sq. Ft.
With Sears and Broadway
- **Tucson Mall** (Sept., 1984)
119,000 Sq. Ft.
With Penney's, Sears, Mervyn's and Broadway

ARKANSAS

Fayetteville-Springdale

Northwest Arkansas Plaza
(Mar., 1972)
116,000 Sq. Ft.
With Penney's and Sears

Hot Springs

Hot Springs Mall
(Feb., 1982)
70,000 Sq. Ft.
With Penney's and Sears

Jonesboro

Indian Mall (Oct., 1967)
75,000 Sq. Ft.
With Penney's and Sears

Little Rock

Downtown (1963)
40,000 Sq. Ft.
Park Plaza (Mar., 1965)
196,000 Sq. Ft.

North Little Rock

McCain Mall (Sept., 1972)
225,000 Sq. Ft.
With Penney's and Sears

Pine Bluff

Jefferson Square (1964)
60,000 Sq. Ft.

KANSAS

Wichita

Towne East Mall (Aug., 1975)
180,000 Sq. Ft.
With Penney's and Sears

Towne West Mall (Mar., 1981)
160,000 Sq. Ft.
With Penney's and Ward's

LOUISIANA

Baton Rouge

Cortana Mall (Sept., 1976)
180,000 Sq. Ft.
With Penney's, Sears and Goudchaux

Bossier City (Shreveport)

Pierre Bossier Mall
(Aug., 1982)
125,000 Sq. Ft.
With Penney's and Sears

Shreveport

Shreve City Center
(Oct., 1970)
114,000 Sq. Ft.
With Penney's

South Park Mall (July, 1975)
180,000 Sq. Ft.
With Penney's and Ward's

MISSOURI

St. Louis Area

- **Chesterfield Mall**
(Jan., 1984)
198,000 Sq. Ft.
With Sears and Famous-Barr
- **Crestwood Plaza** (Jan., 1984)
170,000 Sq. Ft.
With Sears and Famous-Barr
- **Jamestown Mall** (Jan., 1984)
223,000 Sq. Ft.
With Sears

Northwest Plaza (Jan., 1984)
169,000 Sq. Ft.
With Penney's, Sears and Famous-Barr

River Roads Center
(Jan., 1984)
120,000 Sq. Ft.
With Penney's

South County Center
(Jan., 1984)
141,000 Sq. Ft.
With Penney's and Famous-Barr

St. Clair Square (Illinois)
(Jan., 1984)
175,000 Sq. Ft.
With Penney's, Sears and Famous-Barr

Westroads Shopping Center
(Jan., 1984)
240,000 Sq. Ft.

Kansas City Area

- **Independence Plaza**
(Jan., 1984)
182,000 Sq. Ft.
With Sears and Macy
- **Oak Park Center (Kansas)**
(Jan., 1984)
209,000 Sq. Ft.
With Penney's, Macy and Ward's
- **Ward Parkway Center**
(Jan., 1984)
202,000 Sq. Ft.
With Penney's and Ward's

Springfield

Battlefield Mall (July, 1982)
125,000 Sq. Ft.
With Penney's, Sears, Famous-Barr and Ward's

NEVADA

Las Vegas

- **Boulevard Mall**
(Sept., 1984)
41,000 Sq. Ft.
With Penney's, Sears and Broadway
- **Fashion Show Mall**
(Sept., 1984)
126,000 Sq. Ft.
With Bullock's, Goldwaters, Neiman-Marcus and Sak's Fifth Avenue

Meadows Center
(Sept., 1984)
125,000 Sq. Ft.
With Penney's, Sears and Broadway

NEW MEXICO

Albuquerque

Winrock Center (Nov., 1972)
169,000 Sq. Ft.
With Penney's and Ward's

Farmington

Animas Valley Mall
(Oct., 1982)
70,000 Sq. Ft.
With Penney's and Sears

Las Cruces

Mesilla Valley Mall
(July, 1981)
70,000 Sq. Ft.
With Penney's and Sears

OKLAHOMA

Bartlesville

Washington Park Mall
(Aug., 1984)
70,000 Sq. Ft.
With Penney's and Sears

Enid

Oakwood Mall (Feb., 1984)
70,000 Sq. Ft.
With Penney's

Lawton

Central Mall (Mar., 1980)
100,000 Sq. Ft.
With Penney's and Sears

Midwest City (Oklahoma City)

Heritage Park Mall
(Oct., 1978)
100,000 Sq. Ft.
With Sears and Ward's

Norman

Sooner Fashion Mall
(Aug., 1976)
67,000 Sq. Ft.
With Penney's and Sears

Oklahoma City

Crossroads Mall (Oct., 1973)
193,000 Sq. Ft.
With Penney's and Ward's

Penn Square (Sept., 1984)
127,000 Sq. Ft.
With Ward's

Quail Springs Mall

(Oct., 1980)
204,000 Sq. Ft.
With Penney's and Sears

Shepherd Mall (Sept., 1967)
160,000 Sq. Ft.
With Penney's adjacent to Sears

Tulsa

- **Southland Shopping Center**
(Mar., 1965)
122,000 Sq. Ft.
With Penney's
- **Utica Square** (Sept., 1984)
76,000 Sq. Ft.
- **Woodland Hills Mall**
(Oct., 1976)
180,000 Sq. Ft.
With Penney's, Sears and Sanger-Harris

TENNESSEE

Memphis

- **Mall of Memphis** (Oct., 1981)
204,000 Sq. Ft.
With Penney's and Thalhimers
- **Poplar Plaza Shopping Center**
(Mar., 1982)
120,000 Sq. Ft.
With Penney's
- **Raleigh Springs Mall**
(Mar., 1982)
149,000 Sq. Ft.
With Penney's, Sears and Goldsmith's
- **Whitehaven Plaza Shopping Center** (Mar., 1982)
60,000 Sq. Ft.

TEXAS

Abilene

Mall of Abilene (Mar., 1979)
100,000 Sq. Ft.
With Penney's and Sears

Amarillo

Westgate Mall (Oct., 1982)
160,000 Sq. Ft.
With Sears and Mervyn's

Austin

- **Barton Creek Square**
(Mar., 1982)
204,000 Sq. Ft.
With Penney's, Sears, Foley's and Ward's
- **Hancock Shopping Center**
(Feb., 1964)
88,000 Sq. Ft.
With Sears

Brownsville

Amigoland Mall (Nov., 1973)
107,000 Sq. Ft.
With Penney's and Ward's

Bryan-College Station

Post Oak Mall (Mar., 1982)
100,000 Sq. Ft.
With Sears and Foley's

Corpus Christi

Padre Staples Mall
(Mar., 1970)
124,000 Sq. Ft.
With Penney's

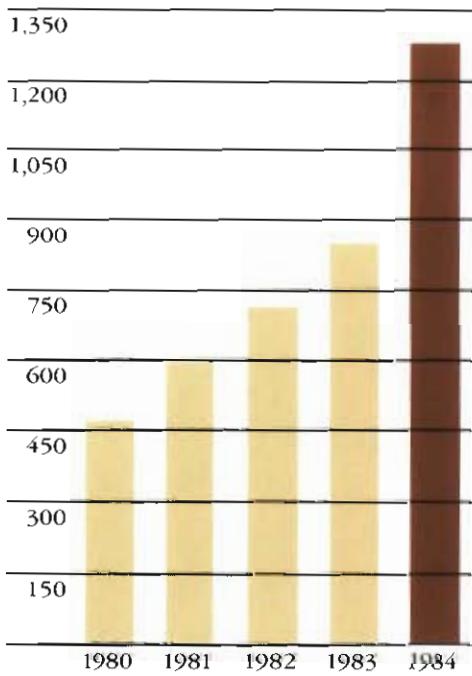
Denton

Golden Triangle Mall
(Sept., 1980)
100,000 Sq. Ft.
With Penney's, Sears and Ward's

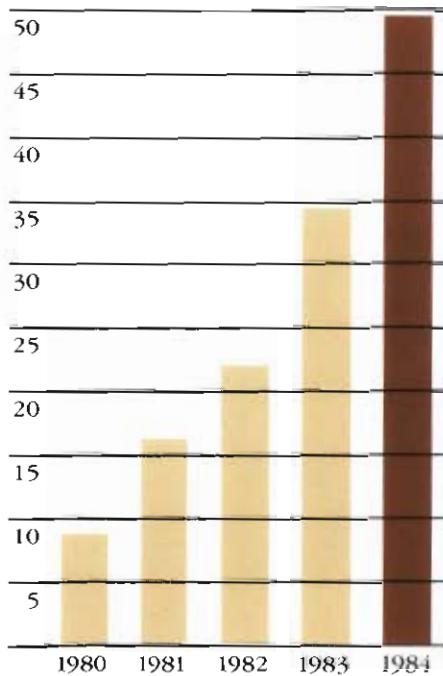
El Paso

Cielo Vista Mall (Nov., 1974)
193,000 Sq. Ft.
With Penney's, Sears, Joske's and Ward's

| | | | |
|---|--|--|--|
| Harlingen | Odessa | Victoria | Fort Worth |
| Valle Vista Mall (Aug., 1983) 100,000 Sq. Ft. With Sears | Permian Mall (Feb., 1980) 100,000 Sq. Ft. With Penney's and Sears | Victoria Mall (Mar., 1981) 70,000 Sq. Ft. With Sears | Ridgmar Mall (Feb., 1976) 204,000 Sq. Ft. With Penney's, Sears and Neiman-Marcus |
| Killeen | San Antonio | Waco | Seminary South Shopping Center |
| Killeen Mall (July, 1981) 70,000 Sq. Ft. With Penney's and Sears | Central Park Mall (Mar., 1968) 140,000 Sq. Ft. With Sears | Richland Fashion Mall (Mar., 1980) 100,000 Sq. Ft. With Penney's and Sears | (Oct., 1978) 127,000 Sq. Ft. With Penney's and Sears |
| Laredo | Ingram Park Mall | Wichita Falls | Tandy Center (Oct., 1977) 106,000 Sq. Ft. |
| Mall Del Norte (Sept., 1977) 88,000 Sq. Ft. With Sears and Ward's | (Oct., 1979) 180,000 Sq. Ft. With Penney's, Sears, Joske's and Foley's | Sikes Senter (Oct., 1974) 110,000 Sq. Ft. With Penney's | |
| Longview | Military Drive Plaza | DALLAS | Hurst |
| Longview Mall (Aug., 1978) 100,000 Sq. Ft. With Penney's and Sears | (Aug., 1968) 82,000 Sq. Ft. With Sears | FORT WORTH | Northeast Mall (1974) 205,000 Sq. Ft. With Penney's, Sears and Ward's |
| Lubbock | Windsor Park Mall | METROPLEX | |
| South Plains Mall (July, 1972) 156,000 Sq. Ft. With Penney's and Sears | (July, 1976) 180,000 Sq. Ft. With Penney's, Joske's and Ward's | Arlington | Irving (Dallas) |
| McAllen | Temple | Forum 303 Mall (1974) 170,000 Sq. Ft. With Ward's | Irving Mall (Mar., 1984) 130,000 Sq. Ft. With Penney's, Sears, Joske's and Mervyn's |
| La Plaza Mall (Mar., 1978) 140,000 Sq. Ft. With Penney's, Sears and Jones & Jones | Temple Mall (Aug., 1976) 67,000 Sq. Ft. With Penney's and Sears | Dallas | Mesquite (Dallas) |
| Midland | Texarkana | Valley View Shopping Center (Oct., 1979) 200,000 Sq. Ft. With Sears, Sanger-Harris and Bloomingdale's | Town East Shopping Center (Aug., 1982) 190,000 Sq. Ft. With Sears, Sanger-Harris and Joske's |
| Midland Park Mall (July, 1980) 100,000 Sq. Ft. With Penney's and Sears | Central Mall (Aug., 1978) 100,000 Sq. Ft. With Penney's and Sears | Plano (Dallas) | Richardson (Dallas) |
| McAllen | Tyler | Forum 303 Mall (1974) 170,000 Sq. Ft. With Ward's | Collin Creek Mall (July, 1981) 195,000 Sq. Ft. With Penney's, Sears, Lord & Taylor and Sanger-Harris |
| | Broadway Square (Feb., 1974) 107,000 Sq. Ft. With Penney's and Sears | Richardson Square (Oct., 1979) 160,000 Sq. Ft. With Sears, Joske's and Ward's | |



Net Sales
(in millions)



Net Income
(in millions)

Retail Stores

- Stores Opened 1984
- Stores Acquired 1984

Based in Little Rock, Dillard Department Stores, Inc., operates 93 stores in the following cities located throughout the sunbelt.

| | | |
|-------------------------------------|-------------------------------------|-------------------------|
| Abilene, TX | Harlingen, TX | Norman, OK |
| Albuquerque, NM | Hot Springs, AR | North Little Rock, AR |
| Amarillo, TX | Hurst, TX | Odessa, TX |
| Arlington, TX | Irving (Dallas), TX | Oklahoma City, OK |
| Austin, TX | Jonesboro, AR | Phoenix, AZ |
| Bartlesville, OK | Kansas City, KS | Pine Bluff, AR |
| Baton Rouge, LA | Kansas City, MO | Plano (Dallas), TX |
| Bossier City, LA | Killeen, TX | Richardson (Dallas), TX |
| Brownsville, TX | Laredo, TX | St. Louis, MO |
| Bryan-College Station, TX | Las Cruces, NM | San Antonio, TX |
| Corpus Christi, TX | Las Vegas, NV | Shreveport, LA |
| Dallas, TX | Lawton, OK | Springfield, MO |
| Denton, TX | Little Rock, AR | Temple, TX |
| El Paso, TX | Longview, TX | Texarkana, TX |
| Enid, OK | Lubbock, TX | Tucson, AZ |
| Fairview Heights (St. Louis), IL | McAllen, TX | Tulsa, OK |
| Farmington, NM | Memphis, TN | Tyler, TX |
| Fayetteville Springdale, AR | Mesquite (Dallas), TX | Victoria, TX |
| Fort Worth, TX | Midland, TX | Waco, TX |
| | Midwest City (Oklahoma City), OK | Wichita, KS |
| | | Wichita Falls, TX |



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Dillard's

Five Year Table of Selected Financial Data

Dillard Department Stores, Inc.

| <i>(In thousands of dollars except per share data)</i> | 1984' | 1983 | 1982 | 1981 | 1980 |
|--|--------------|------------|------------|------------|------------|
| Net Sales | \$ 1,277,280 | \$ 847,485 | \$ 711,323 | \$ 592,867 | \$ 470,733 |
| Percent Increase | 50.7 | 19.1 | 20.0 | 25.9 | 20.3 |
| Cost of Sales | 811,522 | 532,058 | 444,916 | 374,247 | 304,628 |
| Percent of Sales | 63.5 | 62.8 | 62.5 | 63.1 | 64.7 |
| Interest and Debt Expense | 37,720 | 23,067 | 26,668 | 25,223 | 21,496 |
| Income Before Taxes | 87,608 | 59,939 | 35,256 | 27,259 | 12,506 |
| Income Taxes | 38,050 | 25,800 | 13,300 | 11,000 | 4,000 |
| Net Income | 49,558 | 34,139 | 21,956 | 16,259 | 8,506 |
| Per Common Share | | | | | |
| Net Income | 3.63 | 2.76 | 1.86 | 1.38 | .72 |
| Dividends | .175 | .15 | .10 | .10 | .10 |
| Book Value | 20.49 | 14.72 | 11.62 | 9.88 | 8.59 |
| Average Number of Shares Outstanding | 13,657,288 | 12,346,218 | 11,766,956 | 11,745,032 | 11,744,376 |
| Accounts Receivable — Total | 333,830 | 195,274 | 161,490 | 126,083 | 107,417 |
| Merchandise Inventories | 252,239 | 150,829 | 119,348 | 99,291 | 85,014 |
| Property and Equipment | 325,736 | 182,921 | 169,910 | 153,502 | 131,075 |
| Total Assets | 748,187 | 451,110 | 372,486 | 343,954 | 303,333 |
| Long Term Debt | 71,835 | 13,690 | 26,645 | 48,500 | 35,850 |
| Mortgage Debt | 122,826 | 79,344 | 80,391 | 65,208 | 77,070 |
| Capitalized Lease Obligations | 15,575 | 16,411 | 17,330 | 18,291 | 19,163 |
| Deferred Income Taxes — Total | 72,778 | 49,738 | 41,050 | 31,550 | 22,021 |
| Stockholders' Equity | 298,353 | 185,553 | 137,291 | 116,403 | 101,340 |
| Number of Employees — Average | 12,965 | 8,940 | 8,280 | 7,050 | 6,290 |
| Number of Stores | | | | | |
| Opened | 3 | 1 | 11 | 6 | 6 |
| Acquired | 25 | — | — | — | — |
| Closed | 1 | — | 2 | — | — |
| Total — End of Year | 93 | 66 | 65 | 56 | 50 |

'1984 — 53 Weeks

Management's Discussion and Analysis of Financial Condition and Results of Operation

Sales

Sales for 1984 were 50.7% greater than the prior year. The sales increase for the past five years has been:

| | 1984 | 1983 | 1982 | 1981 | 1980 |
|----------------------|-------|-------|-------|-------|-------|
| Sales Increase | 50.7% | 19.1% | 20.0% | 25.9% | 20.3% |

Store for store sales increase by quarter for the past three years has been:

| | 1984 | 1983 | 1982 |
|----------------------|-------|------|-------|
| First Quarter | 19.4% | 3.2% | 10.3% |
| Second Quarter | 14.4 | 10.7 | 7.2 |
| Third Quarter | 11.4 | 19.3 | 1.4 |
| Fourth Quarter | 15.1 | 22.3 | 1.8 |
| Year | 14.8 | 15.3 | 4.5 |

The decrease in store for store sales increase beginning in the second quarter 1982 through the first quarter 1983 was strongly influenced by the Mexican peso devaluation.

Cost of Sales

Cost of sales for the last five years has been:

| | 1984 | 1983 | 1982 | 1981 | 1980 |
|---------------------|-------|-------|-------|-------|-------|
| Cost of Sales | 63.5% | 62.8% | 62.5% | 63.1% | 64.7% |

During 1984, the cost of sales percentage includes a credit of \$500,000, which was the LIFO adjustment for the year. The corresponding charge in 1983 was \$1,400,000, in 1982 was \$400,000, in 1981 was \$4,900,000 and in 1980 was \$1,800,000. The year 1980 was the first year requiring a LIFO charge to operations.

At February 2, 1985, the LIFO reserve was \$8,000,000.

The sales mix for the last five years by category and percent of total sales has been:

| <i>Owned Departments</i> | 1984 | 1983 | 1982 | 1981 | 1980 |
|--|---------------|---------------|---------------|---------------|---------------|
| Women's Clothing & Accessories | 39.9% | 37.7% | 36.6% | 34.6% | 31.4% |
| Juniors' & Children's Clothing & Accessories | 13.2 | 14.3 | 14.5 | 14.5 | 13.5 |
| Men's Clothing & Accessories | 16.3 | 15.7 | 15.4 | 15.2 | 14.9 |
| Home Accessories | 13.8 | 15.2 | 15.3 | 16.6 | 17.4 |
| Furniture, TV & Appliances | 7.6 | 8.1 | 8.5 | 8.2 | 10.1 |
| | 90.8 | 91.0 | 90.3 | 89.1 | 87.3 |
| <i>Leased Departments</i> | | | | | |
| Shoes | 4.4 | 4.6 | 5.0 | 5.0 | 4.8 |
| Handbags & Millinery | — | — | — | 1.0 | 2.5 |
| Fine Jewelry | 2.6 | 2.7 | 2.7 | 2.8 | 2.9 |
| Other | 2.2 | 1.7 | 2.0 | 2.1 | 2.5 |
| | 9.2 | 9.0 | 9.7 | 10.9 | 12.7 |
| Total | 100.0% | 100.9% | 100.6% | 100.0% | 100.0% |

Management's Discussion and Analysis of Financial Condition and Results of Operation

(continued)

Expenses

Expenses as a percent of sales have varied for the past five years as follows:

| | 1984 | 1983 | 1982 | 1981 | 1980 |
|---|-------|-------|-------|-------|-------|
| Advertising, Selling, Administrative & General..... | 25.5% | 25.8% | 26.8% | 26.1% | 26.7% |
| Depreciation & Amortization | 2.4 | 2.6 | 2.6 | 2.6 | 2.7 |
| Rentals | 2.0 | 2.4 | 2.5 | 2.3 | 2.2 |
| Interest & Debt Expense..... | 3.0 | 2.7 | 3.7 | 4.3 | 4.6 |

Real Estate

At year end the Company owned 34 store buildings:

| | | | |
|----------------------------------|--|--|--------------------------------------|
| McCain Mall North Little Rock | Forum 303 Arlington | Town East Shopping Center Dallas | Irving Mall Dallas |
| Winrock Center Albuquerque | Heritage Park Mall Midwest City | Chesterfield Mall St. Louis | Washington Park Mall Bartlesville |
| Crossroads Mall Oklahoma City | Valley View Shopping Center Dallas | Jamestown Mall St. Louis | Fiesta Mall Phoenix |
| South Park Mall Shreveport | Quail Springs Mall Oklahoma City | South County Center St. Louis | Metro Center Phoenix |
| Ridgmar Mall Fort Worth | Mall of Memphis Memphis | St. Clair Square Fairview Heights (St. Louis) | Paradise Valley Phoenix |
| Windsor Park Mall San Antonio | Hot Springs Mall Hot Springs | Westroads Mall St. Louis | Westridge Mall Phoenix |
| Cortana Mall Baton Rouge | Post Oak Mall Bryan-College Station | Independence Plaza Kansas City | Tucson Mall Tucson |
| Woodland Hills Tulsa | Barton Creek Square Austin | Ward Parkway Center Kansas City | Fashion Show Mall Las Vegas |
| Northeast Mall Fort Worth | | | Meadows Center Las Vegas |

The square footage of company owned store buildings is 5,645,000.

Buildings now leased by the Company on which purchase options exist are:

| | | | |
|-------------------------------|-----------------------------|--|---|
| Sooner Fashion Mall Norman | Westgate Mall Amarillo | Ingram Park Mall San Antonio | Broadway Square Tyler |
| Mall of Abilene Abilene | Cielo Vista Mall El Paso | Richardson Square Richardson (Dallas) | Dillard Distribution Center Fort Worth |

Income Taxes

Effective income tax rates have varied substantially through the past five years because of investment tax credits. The rates and credits have been:

| Year Ended | Effective Rate | Investment Tax Credits |
|------------------------|----------------|------------------------|
| February 2, 1985 | 43.4% | \$4,270,000 |
| January 28, 1984..... | 43.0 | 1,785,000 |
| January 29, 1983..... | 37.7 | 3,320,000 |
| January 30, 1982..... | 40.4 | 1,850,000 |
| January 31, 1981 | 31.9 | 1,819,000 |

Trade Accounts Receivable

The year to year percentage growth in sales and accounts receivable has been:

| | 1984 | 1983 | 1982 | 1981 | 1980 |
|---------------------------|-------|-------|-------|-------|-------|
| Sales | 50.7% | 19.1% | 20.0% | 25.9% | 20.3% |
| Accounts Receivable | 70.9 | 20.9 | 28.1 | 17.4 | 5.7 |

The five year compound annual growth rate has been 26.7% for sales and 26.9% for receivables.

The low percentage growth of receivables in 1980 was caused by credit restraints imposed during that year. The increase in 1982 was occasioned by an aggressive credit account promotion during that year to compensate for the slower growth the two previous years.

The composition of total sales for the past three years has been:

| | 1984 | 1983 | 1982 |
|--|---------------|---------------|---------------|
| Dillard's Charge | 50.4% | 48.0% | 48.4% |
| Outside Credit Cards | | | |
| Visa, MasterCard, American Express, Diners | 12.2 | 11.1 | 9.8 |
| Cash | 37.4 | 40.9 | 41.8 |
| | 100.0% | 100.0% | 100.0% |

Liquidity And Source Of Funds

The Company maintains through Dillard Investment Co., Inc. (DIC) a bank credit agreement of \$200,000,000 and a commercial paper facility of \$25,000,000 to fund the purchase of trade accounts receivable from the Company. Through a combination of these two arrangements sufficient capacity is maintained to fund the necessary amount of trade accounts receivable. At year end, a total of \$215,000,000 in facilities was being utilized. The arrangements between the Company and DIC require that the Company maintain an equity within DIC equal to 15% of the total bank lines and commercial paper arrangement. The incremental fund requirement for increases in trade accounts receivable is 15% which must be supplied by the working capital of the Company.

Merchandise inventories at year end, as a percent of sales were:

| | 1984 | 1983 | 1982 | 1981 | 1980 |
|-------------------------------|-------|-------|-------|-------|-------|
| Merchandise Inventories | 19.7% | 17.8% | 16.8% | 16.7% | 18.0% |

Merchandise inventories at year end as a percent of sales was year end inventory (\$252,239,000) divided by sales (\$1,277,280,000) or 19.7%. The year end inventory includes the inventory of the Brown and Diamond's acquisitions while sales only include the Brown and Diamond's sales since acquisition on September 30, 1984. The inventory divided by the pro forma sales (\$1,422,649,000) including twelve months for Brown and Diamond's is 17.7%, compared to last year's 17.8%.

The incremental fund requirement for increases in sales for merchandise inventories is approximately 17% of the increased sales less any corresponding increase in trade accounts payable.

Capital expenditures for new stores and remodeling of older stores in 1985 will approximate \$28,500,000.

Auditors' Report

Stockholders and Board of Directors
Dillard Department Stores, Inc.
Little Rock, Arkansas

We have examined the consolidated balance sheets of Dillard Department Stores, Inc. and consolidated subsidiary as of February 2, 1985 and January 28, 1984, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended February 2, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Dillard Department Stores, Inc. and consolidated subsidiary at February 2, 1985 and January 28, 1984, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended February 2, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Little Rock, Arkansas
March 15, 1985

Consolidated Balance Sheets

Dillard Department Stores, Inc.

| <i>(In thousands of dollars)</i> | February 2 1985 | January 28 1984 |
|---|--------------------|--------------------|
| Assets | | |
| CURRENT ASSETS | | |
| Cash and short-term investments | \$ 28,599 | \$ 23,148 |
| Trade accounts receivable — Note C | 34,882 | 18,909 |
| Receivable from Dillard Investment Co., Inc. | 54,335 | 38,999 |
| Merchandise inventories — Note A | 252,239 | 150,829 |
| Supplies and prepaid expenses | 1,886 | 1,153 |
| TOTAL CURRENT ASSETS | 371,941 | 233,038 |
| INVESTMENTS AND OTHER ASSETS | | |
| Equity in net assets of Dillard Investment Co., Inc. | 35,449 | 21,441 |
| Other | 3,365 | 1,066 |
| 38,814 | 22,507 | |
| PROPERTY AND EQUIPMENT — Notes D and J | | |
| Land and land improvements | 12,671 | 9,938 |
| Building and leasehold improvements | 170,056 | 88,011 |
| Furniture, fixtures and equipment | 226,467 | 155,070 |
| Buildings under construction | 15,454 | 3,923 |
| Less accumulated depreciation and amortization | (98,912) | (74,021) |
| 325,736 | 182,921 | |
| BUILDINGS UNDER CAPITAL LEASES, less amortization | | |
| (1985 — \$12,520; 1984 — \$11,572) — Note I | 11,696 | 12,644 |
| \$748,187 | \$451,110 | |
| Liabilities and Stockholders' Equity | | |
| CURRENT LIABILITIES | | |
| Trade accounts payable and accrued expenses — Note E | \$134,102 | \$ 89,489 |
| Federal and state income taxes | 13,813 | 11,966 |
| Deferred income taxes | 45,738 | 28,551 |
| Current portion of long-term debt | 18,069 | 4,000 |
| Current portion of capital lease obligations | 836 | 919 |
| TOTAL CURRENT LIABILITIES | 212,558 | 134,925 |
| LONG-TERM DEBT, less current portion — Note D | | |
| Notes payable | 71,835 | 13,690 |
| Real estate and mortgage notes | 122,826 | 79,344 |
| 194,661 | 93,034 | |
| CAPITAL LEASE OBLIGATIONS, less current portion — Note I | | |
| 15,575 | 16,411 | |
| DEFERRED INCOME TAXES | | |
| 27,040 | 21,187 | |
| STOCKHOLDERS' EQUITY — Notes D, G and H | | |
| Preferred Stock | 440 | 440 |
| Common Stock | 36,508 | 31,590 |
| Additional paid-in capital | 99,687 | 38,967 |
| Retained earnings | 161,986 | 114,824 |
| Less treasury stock, at cost | (268) | (268) |
| 298,353 | 185,553 | |
| OPERATING LEASES AND COMMITMENTS — Note J | | |
| \$748,187 | \$451,110 | |

See notes to consolidated financial statements.

Consolidated Statements of Income and Retained Earnings

Dillard Department Stores, Inc.

| <i>(In thousands of dollars except per share data)</i> | <i>Year Ended</i> | | |
|--|----------------------------|----------------------------|----------------------------|
| | February 2 1985 | January 28 1984 | January 29 1983 |
| Net sales, including sales of leased departments | \$1,277,280 | \$847,485 | \$711,323 |
| Service charges, interest and other | 40,924 | 29,223 | 22,864 |
| | 1,318,204 | 876,708 | 734,187 |
| Costs and expenses: | | | |
| Cost of sales | 811,522 | 532,058 | 444,916 |
| Advertising, selling, administrative and general expenses | 325,624 | 218,938 | 191,060 |
| Depreciation and amortization | 30,435 | 22,380 | 18,533 |
| Rentals — Note J | 25,295 | 20,326 | 17,754 |
| Interest and debt expense — Note D | 37,720 | 23,067 | 26,668 |
| | 1,230,596 | 816,769 | 698,931 |
| | 87,608 | 59,939 | 35,256 |
| Federal and state income taxes — Note F | 38,050 | 25,800 | 13,300 |
| | 49,558 | 34,139 | 21,956 |
| Retained earnings at beginning of year | 114,824 | 82,561 | 61,804 |
| | 164,382 | 116,700 | 83,760 |
| Cash dividends: | | | |
| Preferred Stock, \$5 a share | 22 | 22 | 22 |
| Common Stock, 1984 — \$.175 a share; 1983 — \$.15 a share; 1982 — \$.10 a share | 2,374 | 1,854 | 1,177 |
| | 2,396 | 1,876 | 1,199 |
| | \$ 161,986 | \$114,824 | \$ 82,561 |
| Net income per common share | \$3.63 | \$2.76 | \$1.86 |

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Dillard Department Stores, Inc.

| <i>(In thousands of dollars)</i> | <i>Year Ended</i> | | |
|---|---|----------------------------|----------------------------|
| | February 2 1985 | January 28 1984 | January 29 1983 |
| SOURCE OF FUNDS | | | |
| Net income | \$ 49,558 | \$34,139 | \$21,956 |
| Charges (credits) to income not affecting current working capital: | | | |
| Depreciation and amortization | 30,435 | 22,380 | 18,533 |
| Deferred income taxes | 5,853 | 3,699 | 2,254 |
| Net income of Dillard Investment Co., Inc. | (3,483) | (1,917) | (2,010) |
| | TOTAL FROM OPERATIONS | 82,363 | 58,301 |
| Acquisition of businesses, net of working capital acquired of \$136,027 — Note B: | | | |
| Long-term debt issued | 100,000 | — | — |
| Common Stock issued or sold | 65,473 | — | — |
| Property and equipment | (100,316) | — | — |
| Other assets | (117) | — | — |
| Net carrying amount of property and equipment sold | 7,325 | 1,035 | 2,024 |
| Long-term borrowings | 19,700 | — | 16,258 |
| Sale of Common Stock | — | 15,452 | — |
| Sale of treasury stock | — | 250 | — |
| Exercise of stock options | 165 | 297 | 130 |
| Other — net | (2,182) | 698 | 142 |
| | 172,411 | 76,033 | 59,287 |
| APPLICATION OF FUNDS | | | |
| Additions to property and equipment | 79,311 | 35,425 | 35,964 |
| Payments and transfers to current maturities on long-term debt | 18,073 | 14,002 | 22,930 |
| Payments and transfers to current maturities on capital lease obligations | 836 | 919 | 961 |
| Additional investment in Dillard Investment Co., Inc. | 10,525 | — | 275 |
| Cash dividends | 2,396 | 1,876 | 1,199 |
| | 111,141 | 52,222 | 61,329 |
| | INCREASE (DECREASE) IN WORKING CAPITAL | \$ 61,270 | \$ 23,811 |
| | | \$ (2,042) | |
| CHANGES IN COMPONENTS OF WORKING CAPITAL | | | |
| Increase (decrease) in current assets: | | | |
| Cash and short-term investments | \$ 5,451 | \$ (339) | \$ 3,040 |
| Trade accounts receivable | 15,973 | 685 | 5,023 |
| Receivable from Dillard Investment Co., Inc. | 15,336 | 32,902 | (16,543) |
| Merchandise inventories | 101,410 | 31,481 | 20,057 |
| Supplies and prepaid expenses | 733 | 666 | (596) |
| | 138,903 | 65,395 | 10,981 |
| Increase (decrease) in current liabilities: | | | |
| Trade accounts payable and accrued expenses | 44,614 | 26,512 | 2,974 |
| Federal and state income taxes | 1,847 | 8,926 | 1,678 |
| Deferred income taxes | 17,187 | 4,989 | 7,246 |
| Current portion of long-term debt | 14,069 | 1,199 | 1,037 |
| Current portion of capital lease obligations | (84) | (42) | 88 |
| | 77,633 | 41,584 | 13,023 |
| | INCREASE (DECREASE) IN WORKING CAPITAL | \$ 61,270 | \$ 23,811 |
| | | \$ (2,042) | |

See notes to consolidated financial statements.

Notes To Consolidated Financial Statements

Dillard Department Stores, Inc.

February 2, 1985

Note A:

Description of Business and Summary of Significant Accounting Policies

Description of Business: The Company operates retail department stores located primarily in the Southwest and Midwest. The Company's fiscal year ends on the Saturday nearest January 31. As a result, the year ended February 2, 1985 contains 53 weeks and the years ended January 28, 1984 and January 29, 1983 contain 52 weeks.

Consolidation: The accompanying consolidated financial statements include the Company and its wholly owned real estate subsidiary, Construction Developers, Inc. (which leases property principally to the Company). Intercompany accounts and transactions are eliminated upon consolidation.

Condensed financial information of the wholly owned unconsolidated finance subsidiary, Dillard Investment Co., Inc. (DIC), is presented below:

| | February 2 1985 | January 28 1984 |
|---|--------------------|--------------------|
| <i>(In thousands of dollars)</i> | | |
| ASSETS | | |
| Cash | \$ 11,443 | \$ 12,606 |
| Accounts receivable purchased | 293,448 | 173,065 |
| Prepaid expenses | — | 23 |
| | \$304,891 | \$185,694 |
| LIABILITIES AND EQUITY OF PARENT | | |
| Commercial paper and notes payable to banks | \$214,925 | \$124,917 |
| Payable to parent | 54,335 | 38,999 |
| Accrued liabilities | 182 | 337 |
| Equity of parent | 35,449 | 21,441 |
| | \$304,891 | \$185,694 |

| | <i>Year Ended</i> | | |
|--------------------------------------|--------------------|--------------------|--------------------|
| | February 2 1985 | January 28 1984 | January 29 1983 |
| <i>(In thousands of dollars)</i> | | | |
| Interest income | \$21,046 | \$11,399 | \$12,699 |
| Interest expense | 14,563 | 7,795 | 8,931 |
| Income before income taxes | 6,452 | 3,547 | 3,722 |

Income before income taxes of DIC, all of which is derived from the Company, is deducted from interest expense in the accompanying income statements. The provision for income taxes of DIC is included in consolidated income tax expense.

Undistributed earnings of DIC were \$14,759,000 and \$11,276,000 as of February 2, 1985 and January 28, 1984, respectively, and are included in retained earnings of the Company as of those dates.

Note A:
Description of Business
and Summary of
Significant Accounting
Policies
(continued)

Revenues: Retail sales are recorded on the accrual basis and include leased department sales of \$117,783,000, \$76,108,000 and \$69,229,000 for the years ended February 2, 1985, January 28, 1984 and January 29, 1983, respectively. Credit service charges are recorded monthly on the basis of billed customer account balances. Profits on installment sales are recognized in full for accounting purposes when the sales are recorded.

Costs, Expenses, and Related Balance Sheet Accounts: The retail last-in, first-out (LIFO) inventory method is used to value merchandise inventories, with such LIFO merchandise inventories not being carried in excess of current cost, as determined under the first-in, first-out method. Under this method, at February 2, 1985, January 28, 1984 and January 29, 1983, the LIFO cost of merchandise inventories was approximately \$8,000,000, \$8,500,000 and \$7,100,000, respectively, less than current cost. At February 2, 1985, a market valuation reserve of approximately \$5,600,000 was included in the amount above to offset the increase in certain LIFO merchandise inventories in excess of current cost resulting from the application of the LIFO method to inventories acquired as part of the acquisitions discussed in Note B.

Property and equipment owned by the Company is recorded at cost, which includes related interest costs incurred. Depreciation is computed by the straight-line method for financial reporting purposes. For tax reporting purposes, accelerated depreciation or cost recovery methods are used and the related deferred income taxes are included in noncurrent deferred income taxes on the balance sheet.

Properties leased by the Company under lease agreements which are determined to be capital leases are stated at an amount equal to the present value of the minimum lease payments during the lease term, less accumulated provision for amortization. The properties under capital leases are being amortized on the straight-line method over the related lease terms. The provision for amortization of leased properties is included in depreciation and amortization expense.

Pre-opening costs of new stores are expensed in the fourth quarter of the year such costs are incurred.

Income Taxes: For tax reporting purposes, the installment method of reporting profit on revolving credit and installment sales is used and the related deferred income taxes are classified as a current liability on the balance sheet. Investment tax credits are accounted for by the flow-through method.

Earnings Per Common Share: Earnings per share have been computed based on the weighted average of Class A and Class B Common shares outstanding, after deducting preferred dividend requirements and giving effect to outstanding stock options when material.

Notes To Consolidated Financial Statements

(continued)

Note B: Acquisitions

On January 29, 1984, the Company acquired substantially all of the operating assets of the Stix, Baer & Fuller Division (Stix) of Associated Dry Goods Corporation, including certain real estate owned by an affiliate of Stix, which real estate had formerly been leased to Stix. These assets included 12 department stores (one of which was immediately closed for extensive remodelling) and one warehouse. The aggregate purchase price of the assets acquired was approximately \$93,000,000 and included 600,000 shares of Class A Common Stock. This acquisition has been accounted for as a purchase with the operations of Stix included in the Company's consolidated operations from January 29, 1984.

On September 30, 1984, the Company acquired substantially all of the operating assets of the Diamond's (Diamond's) and John A. Brown (Brown) divisions of Dayton Hudson. The Diamond's assets acquired included 12 stores and one warehouse and the Brown assets acquired included 6 stores. Three of the six Brown stores were located in shopping centers where the Company already operated stores and were combined with the Company's stores in those centers. A fourth Brown store which was operated as a small specialty store was closed. The aggregate purchase price of the Diamond's and Brown assets acquired was approximately \$143,000,000. The Company sold 1,337,219 shares of Class A Common Stock in connection with the financing of this acquisition. This acquisition has been accounted for as a purchase with the operations of Diamond's and Brown included in the Company's consolidated operations from September 30, 1984.

The following unaudited pro forma combined results of operations give effect to the above acquisitions as if they had been completed at the beginning of each year presented:

| <i>(In thousands of dollars except per share data)</i> | February 2 1985 | January 28 1984 |
|--|--------------------|--------------------|
| Net sales | \$1,422,649 | \$1,214,047 |
| Net income..... | 49,426 | 38,860 |
| Net income per share | 3.39 | 2.78 |

Note C: Trade Accounts Receivable

By agreement, the Company sells (subject to reassignment of accounts in default) to DIC, substantially all of its customer accounts receivable. The amount of DIC's line of credit (established with certain banks to provide funds for the purchase of the accounts) was \$200,000,000 as of February 2, 1985 and \$100,000,000 as of January 28, 1984. In addition, DIC has \$25,000,000 of commercial paper outstanding.

Trade accounts receivable consist of the following:

| <i>(In thousands of dollars)</i> | February 2 1985 | January 28 1984 |
|--|--------------------|--------------------|
| Trade accounts receivable | \$333,830 | \$195,274 |
| Less: Accounts sold to DIC (net of Company's 10% interest in such accounts) | (293,448) | (173,065) |
| Allowance for doubtful accounts | (5,500) | (3,300) |
| | <u>\$ 34,882</u> | <u>\$ 18,909</u> |

Note D:
Long-Term Debt

| <i>(In thousands of dollars)</i> | February 2 1985 | January 28 1984 |
|---|----------------------------|----------------------------|
| Promissory notes to institutional lenders (1): | | |
| 8.22% and 8.24% notes, payable in annual installments of \$1,100,000 on each February 1 through 1987 with a final payment of \$1,450,000 in 1988 | \$ 3,650 | \$ 5,850 |
| 8.875% notes, payable in annual installments of \$755,000 through 1992 | 6,040 | 6,795 |
| 10.375% note, due in annual installments of \$400,000 in 1986 through 1995 | 4,000 | 4,000 |
| Note payable to a bank at a New York bank prime rate not to exceed 13% (paying 10.5% at February 2, 1985), due in annual installments of \$8,000,000 in 1985 through 1989 | 40,000 | — |
| Note payable to a bank at rates ranging from 11.4375% to 13.375%, due in annual installments of \$7,000,000 in 1985 through 1989 | 35,000 | — |
| | <u>88,690</u> | <u>16,645</u> |
| Current portion | <u>(16,855)</u> | <u>(2,955)</u> |
| | <u>71,835</u> | <u>13,690</u> |
| Mortgage notes, payable monthly or quarterly (some with balloon payments) over periods up to 31 years from inception and bearing interest at 8.0% to 13.375% (2) | 99,040 | 80,389 |
| Real estate note (3) | 25,000 | — |
| | <u>124,040</u> | <u>80,389</u> |
| Current portion | <u>(1,214)</u> | <u>(1,045)</u> |
| | <u>122,826</u> | <u>79,344</u> |
| | <u>\$194,661</u> | <u>\$93,034</u> |

- (1) The related loan agreements limit the parent company's funded debt and long-term lease obligations, unless certain financial tests are met, and require the maintenance of prescribed levels of working capital. The agreements also contain provisions which restrict the payment of dividends and the purchase of capital stock for cash. Under the most restrictive provision, in excess of \$70,000,000 of retained earnings were available for the payment of dividends at February 2, 1985.
- (2) Buildings (one of which is located on leased land), land and land improvements and equipment with a carrying value of \$84,887,000 at February 2, 1985 are pledged as collateral on these notes.
- (3) Represents an unsecured ten year note payable to a bank at 12% for the first five years and a floating rate during the last five years. The note is payable in annual installments of \$1,562,500 in 1986 through 1989, \$1,250,000 in 1990 through 1993 and a final payment of \$13,750,000 in 1994. Proceeds of the note were used to purchase certain real estate and buildings.

Maturities of long-term debt over the next five years are \$18,069,000, \$19,027,000, \$20,303,000, \$20,814,000 and \$19,542,000.

Notes To Consolidated Financial Statements

(continued)

Note D: Long-Term Debt (continued)

Interest and debt expense, exclusive of capitalized interest of \$636,000 in fiscal 1982, consists of the following:

| <i>(In thousands of dollars)</i> | February 2 1985 | January 28 1984 | January 29 1983 |
|--|----------------------------|----------------------------|----------------------------|
| Interest | \$20,476 | \$12,864 | \$15,072 |
| Amortization of debt expense | 16 | 16 | 251 |
| | <u>20,492</u> | <u>12,880</u> | <u>15,323</u> |
| Capital lease obligations | 1,493 | 1,583 | 1,671 |
| Dillard Investment Co., Inc. — net | 14,594 | 7,852 | 8,977 |
| Other | 1,141 | 752 | 697 |
| | <u>\$37,720</u> | <u>\$23,067</u> | <u>\$26,668</u> |

Note E: Trade Accounts Payable and Accrued Expenses

Trade accounts payable and accrued expenses are comprised of the following:

| <i>(In thousands of dollars)</i> | February 2 1985 | January 28 1984 |
|----------------------------------|----------------------------|----------------------------|
| Trade accounts payable | \$ 77,959 | \$55,632 |
| Accrued expenses: | | |
| Taxes, other than income | 12,993 | 8,089 |
| Compensation | 6,449 | 4,564 |
| Leased departments | 6,725 | 3,460 |
| Interest, rent and other | 29,976 | 17,744 |
| | <u>\$134,102</u> | <u>\$89,489</u> |

Note F: Income Taxes

The provision for federal and state income taxes is summarized as follows:

| <i>(In thousands of dollars)</i> | Year Ended | | |
|----------------------------------|----------------------------|----------------------------|----------------------------|
| | February 2 1985 | January 28 1984 | January 29 1983 |
| Federal income taxes: | | | |
| Current | \$13,500 | \$17,000 | \$ 4,050 |
| Deferred | 21,550 | 7,500 | 8,475 |
| | <u>35,050</u> | <u>24,500</u> | <u>12,525</u> |
| State income taxes | 3,000 | 1,300 | 775 |
| | <u>\$38,050</u> | <u>\$25,800</u> | <u>\$13,300</u> |

A reconciliation between the effective income tax rate and the statutory federal income tax rate is presented below:

| <i>(In thousands of dollars)</i> | Year Ended | | |
|--|----------------------------|----------------------------|----------------------------|
| | February 2 1985 | January 28 1984 | January 29 1983 |
| Income tax at the statutory federal rate of 46% | \$40,300 | \$27,572 | \$16,218 |
| Investment tax credits | (4,270) | (1,785) | (3,320) |
| Effect of state income taxes | (1,380) | (598) | (356) |
| Other | 400 | (689) | (17) |
| | <u>\$35,050</u> | <u>\$24,500</u> | <u>\$12,525</u> |

Note F:
Income Taxes
(continued)

Deferred income taxes are attributable to the following items:

| <i>(In thousands of dollars)</i> | <i>Year Ended</i> | | |
|--|----------------------------|----------------------------|----------------------------|
| | February 2 1985 | January 28 1984 | January 29 1983 |
| Installment sales | \$18,928 | \$4,469 | \$5,216 |
| Inventory valuation reserve | (2,603) | — | 159 |
| Investment tax credits | 1,251 | — | 390 |
| Accelerated depreciation and basis differences | 4,904 | 3,312 | 2,873 |
| Capitalized interest | — | — | 217 |
| Other | (930) | (281) | (380) |
| Total deferred income tax provision | \$21,550 | \$7,500 | \$8,475 |

Note G:
Stockholders' Equity

Capital stock is composed of the following:

| <i>Type</i> | <i>Par Value</i> | <i>Shares Authorized</i> | <i>Shares Issued and Outstanding</i> | | |
|--|----------------------|------------------------------|--------------------------------------|---|----------------------------|
| | | | February 2 1985 | January 28 1984 | January 29 1983 |
| Preferred | | | | | |
| (5% cumulative) | \$100 | 5,000 | 4,400 | 4,400 | 4,400 |
| Class A, Common | — | 20,000,000 | 13,889,283 | 11,895,092 | 11,100,056 |
| Class B, Common | — | 800,000 | 713,868 | 740,840 | 752,576 |
| Common Stock | | | | | |
| | | <i>Class A</i> | <i>Class B</i> | <i>Additional Paid-In Capital</i> | |
| Balance at January 30, 1982 | \$27,606,210 | \$1,942,370 | \$24,931,590 | — | |
| Exchange of 24,372 shares | 60,930 | (60,930) | — | — | |
| Issuance of 33,200 shares under stock option plan | 83,000 | — | 46,975 | — | |
| Balance at January 29, 1983 | 27,750,140 | 1,881,440 | 24,978,565 | — | |
| Exchange of 11,736 shares | 29,340 | (29,340) | — | — | |
| Issuance of 63,300 shares under stock option plan | 158,250 | — | 138,337 | — | |
| Sale of 720,000 shares | 1,800,000 | — | 13,652,281 | — | |
| Sale of 12,160 shares of treasury stock | — | — | 197,412 | — | |
| Balance at January 28, 1984 | 29,737,730 | 1,852,100 | 38,966,595 | — | |
| Exchange of 26,972 shares | 67,430 | (67,430) | — | — | |
| Issuance of 30,000 shares under stock option plan | 75,000 | — | 90,469 | — | |
| Issuance of 600,000 shares in connection with Stix acquisition — Note B | 1,500,000 | — | 14,250,000 | — | |
| Sale of 1,337,219 shares in connection with Diamond's and Brown acquisition — Note B .. | 3,343,048 | — | 46,380,220 | — | |
| Balance at February 2, 1985 | \$34,723,208 | \$1,784,670 | \$99,687,284 | — | |

Notes To Consolidated Financial Statements

(continued)

Note G: Stockholders' Equity (continued)

Holders of Class A are empowered as a class to elect one-third of the members of the Board of Directors and the holders of Class B are empowered as a class to elect two-thirds of the members of the Board of Directors. Shares of Class B are convertible at the option of any holder thereof into shares of Class A at the rate of one share of Class B for one share of Class A. Shares issued and outstanding at February 2, 1985 and January 28, 1984 include 62,240 shares of Class A which were purchased in 1979 and are being held as treasury stock.

On March 14, 1983, the Company's Common Stock was split two-for-one, with the authorized shares of Class A increased to 10,000,000 (\$5.00 par value) and Class B increased to 800,000 (\$5.00 par value). On November 18, 1983, the stockholders further increased the authorized shares of Class A to 20,000,000 and changed both the Class A and Class B Common Stock to no par. On August 30, 1984, the Company's Class A and Class B Common Stock was again split two-for-one. All share and per share references have been adjusted retroactively to reflect these splits.

Note H: Stock Options

Under the terms of a 1973 stock option plan, 240,000 shares of Class A Common Stock were made available for granting options (prior to March 10, 1983) to certain officers and employees of the Company. The option price is the market value of the shares at the time options are granted. The options become exercisable in four equal installments on the anniversary of the grant date, beginning with the second anniversary. Options not exercised on these dates are terminated and no options were exercisable at any year end. No options were available for grant at the end of the fiscal 1984 and 1983. Option transactions for fiscal 1984 and 1983 are summarized as follows:

| | Shares Under Options | | Aggregate Option Price | |
|--|----------------------|----------|------------------------|------------|
| | 1984 | 1983 | 1984 | 1983 |
| Outstanding at beginning of year | 84,000 | 147,300 | \$ 474,281 | \$ 770,869 |
| Exercised | (30,000) | (63,300) | (165,468) | (296,588) |
| Outstanding at end of year | 54,000 | 84,000 | \$ 308,813 | \$ 474,281 |

In May 1984, the Company's 1984 Incentive Stock Option Plan was approved by the stockholders. This plan provides for the granting of options to purchase an additional 300,000 shares on terms similar to the 1973 plan. None of these options had been granted at February 2, 1985.

Note I: Capital Leases

Future minimum payments, by year and in the aggregate, under capital leases as of February 2, 1985 are as follows (thousands):

Fiscal Period

| | |
|---|----------|
| 1985 | \$ 2,246 |
| 1986 | 2,231 |
| 1987 | 2,226 |
| 1988 | 2,100 |
| 1989 | 1,786 |
| After 1989 | 20,073 |
| Total minimum lease payments | 30,662 |
| Less: Amount representing interest | (14,251) |
| Present value of net minimum lease payments | \$16,411 |

Note J:
Operating Leases
and Commitments

Rental expense consists of the following:

| <i>(In thousands of dollars)</i> | <i>Year Ended</i> | | |
|--|----------------------------|----------------------------|----------------------------|
| | February 2 1985 | January 28 1984 | January 29 1983 |
| Operating leases: | | | |
| Buildings: | | | |
| Minimum rentals | \$15,496 | \$12,124 | \$11,071 |
| Contingent rentals | 3,775 | 2,442 | 1,462 |
| Equipment | 4,549 | 4,492 | 4,214 |
| Sublease revenues | <u>(158)</u> | <u>(199)</u> | <u>(209)</u> |
| | 23,662 | 18,859 | 16,538 |
| Contingent rentals on capital leases | <u>1,633</u> | <u>1,467</u> | <u>1,216</u> |
| | <u>\$25,295</u> | <u>\$20,326</u> | <u>\$17,754</u> |

Contingent rentals on capital leases are based on a percentage of annual sales in excess of specified amounts. Other contingent rentals are based entirely on a percentage of sales.

The future minimum rental commitments as of February 2, 1985 for all noncancelable operating leases for buildings are as follows (thousands):

| <i>Fiscal Period</i> | |
|----------------------|------------------|
| 1985 | \$ 16,845 |
| 1986 | 16,613 |
| 1987 | 16,307 |
| 1988 | 16,094 |
| 1989 | 15,892 |
| After 1989 | <u>222,363</u> |
| | <u>\$304,114</u> |

Renewal options from three to twenty-five years exist on the majority of leased properties.

The Company is committed at February 2, 1985, to incur costs of approximately \$28,500,000 to complete and equip certain stores.

Notes To Consolidated Financial Statements

(continued)

Note K: Other Information (Unaudited)

Quarterly Results of Operations: The following is a tabulation of the unaudited quarterly results of operations for the years ended February 2, 1985 and January 28, 1984 (thousands, except per share data):

| | 1984 | | | |
|-----------------------|--------------------|-----------|------------|------------|
| | Three Months Ended | | | |
| | April 28 | July 28 | October 27 | February 2 |
| Net sales | \$227,851 | \$256,038 | \$302,697 | \$490,694 |
| Gross profit..... | 85,045 | 95,164 | 112,031 | 173,518 |
| Net income..... | 6,121 | 7,861 | 9,275 | 26,301 |
| Per common share..... | .46 | .59 | .69 | 1.80 |

| | 1983 | | | |
|-----------------------|--------------------|-----------|------------|------------|
| | Three Months Ended | | | |
| | April 30 | July 30 | October 29 | January 28 |
| Net sales | \$159,632 | \$185,716 | \$209,175 | \$292,962 |
| Gross profit..... | 60,221 | 68,038 | 77,664 | 109,504 |
| Net income..... | 4,137 | 5,150 | 6,483 | 18,369 |
| Per common share..... | .35 | .42 | .52 | 1.46 |

The Company's LIFO adjustment for 1984 and 1983 was less than previously estimated in preparing the quarterly financial statements for the first three quarters of each year. As a result, fourth quarter net income was approximately \$1,800,000 (\$.12 per share) and \$700,000 (\$.06 per share) higher for 1984 and 1983, respectively, than it would have been had the actual LIFO adjustment been known at the beginning of the year. This impact would have been shared approximately equally by each of the three previous quarters.

Effects of Changing Prices: In accordance with the requirements of Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices," the Company must provide supplemental information concerning the estimated effects of changing prices on its financial statements. The disclosures are intended to address the specific price changes in the individual resources used by the Company ("current" cost).

The supplemental information on changing prices does not reflect a comprehensive application of inflation accounting as the FASB has decided to focus only on those items most affected by changing prices, that is: (1) the effect of specific price changes on inventories and properties and related cost of sales and depreciation, and (2) the effect of general inflation on monetary assets and liabilities.

Note K:
Other Information
(Unaudited)
(continued)

The effects of changes in specific prices have been estimated based on the current cost of inventories and properties as of the balance sheet date. Cost of sales under the LIFO inventory method of the Company approximates the current cost of inventories at the date of sale and remains unchanged from the amount shown in the primary financial statements. As required by FASB Statement No. 33, the provision for income taxes included in the supplementary data is the same as reported in the primary financial statements since present tax laws do not allow deductions for higher depreciation adjustments for the effects of inflation.

When prices are increasing, the holding of monetary assets (e.g., cash and receivables) results in a loss of general purchasing power. Similarly, liabilities are associated with a gain of general purchasing power because the amount of money required to settle the liabilities represents dollars of diminished purchasing power. The net gain in purchasing power is shown separately in the accompanying supplementary data. The amount has been calculated based on the Company's average net monetary liabilities for the year multiplied by the change in CPI-U for the year. Such amount does not represent funds available for distribution to shareholders.

The following table presents supplementary data for fiscal 1984:

| <i>(In thousands of dollars)</i> | <i>As Reported in Financial Statements</i> | <i>Adjusted for Changes in Specific Prices (Current Costs)</i> |
|--|--|--|
| Net sales and other income | \$1,318,204 | \$1,318,204 |
| Cost of sales | 811,522 | 811,522 |
| Depreciation and amortization | 30,435 | 39,150 |
| All other expenses | 388,639 | 388,639 |
| Income before income taxes | 87,608 | 78,893 |
| Federal and state income taxes | 38,050 | 38,050 |
| NET INCOME | <u>\$ 49,558</u> | <u>\$ 40,843</u> |
| Increase in specific prices (current costs) of inventories and properties held during the year ¹ | | \$ 26,164 |
| Less effect of increase in general price level | | 18,312 |
| Increase in current costs over increase in general price level | | <u>\$ 7,852</u> |

¹At February 2, 1985, current cost of inventories was \$261,786 (historical amount — \$252,239) and current cost of properties, net of accumulated depreciation, was \$422,551 (historical amount — \$337,531).

Notes To Consolidated Financial Statements

(continued)

Note K: Other Information (Unaudited)

(continued)

Comparison of Selected Financial Data Adjusted for Effects of General Inflation

In Average 1984 Dollars (except "as reported" amounts)

| <i>(In thousands of dollars except per share data)</i> | 1984 | 1983 | 1982 | 1981 | 1980 |
|---|-------------|-----------|-----------|-----------|-----------|
| Net sales and other income: | | | | | |
| As reported | \$1,318,204 | \$876,708 | \$734,187 | \$610,448 | \$487,552 |
| Adjusted for general inflation | 1,318,204 | 913,604 | 789,884 | 694,602 | 610,663 |
| Net income: | | | | | |
| As reported | 49,558 | 34,139 | 21,956 | 16,259 | 8,506 |
| Adjusted for specific price changes | 40,843 | 28,709 | 18,878 | 14,934 | 7,569 |
| Per share data: | | | | | |
| As reported | .63 | .26 | .18 | .13 | .72 |
| Adjusted for specific changes in prices | 2.99 | 2.32 | 1.60 | 1.27 | .64 |
| Cash dividends paid on common shares: | | | | | |
| As reported | .18 | .15 | .10 | .10 | .10 |
| Adjusted for general inflation | .18 | .16 | .11 | .11 | .13 |
| Increase in current costs of inventories and properties over (under) the general price level | 7,852 | 1,276 | (6,246) | 1,641 | 9,393 |
| Purchasing power gain from holding net monetary liabilities during the year | 8,407 | 7,850 | 7,023 | 14,697 | 19,108 |
| Net assets at year-end: | | | | | |
| As reported | 298,353 | 185,553 | 137,291 | 116,403 | 101,340 |
| Adjusted for specific price changes | 392,919 | 275,569 | 224,060 | 210,178 | 179,912 |
| Market price per common share at year-end: | | | | | |
| As reported | 45.00 | 26.25 | 11.94 | 5.72 | 3.40 |
| Adjusted for general inflation | 44.42 | 26.83 | 12.71 | 6.32 | 4.08 |
| Average consumer price index for all urban consumers | 312.0 | 299.4 | 290.0 | 274.2 | 249.1 |



1984 Annual Report
Dillard Department Stores, Inc.
900 West Capitol Avenue
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